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BLACK PHOTO CORPORATION LIMITED

ANNUAL REPORT 1978

BLACK PHOTO CORPORATION LIMITED

Financial Highlights

	1978	1977
Sales	\$28,374,009	\$23,359,172
Earnings before Extraordinary Item	1,967,171	1,208,508
Net Earnings	1,967,171	842,483
Working Capital	6,578,297	5,303,077
Total Assets	12,812,550	9,474,561
Shareholders' Equity	8,682,126	6,967,516
Earnings per Share : Before Extraordinary Item	\$ 1.82	\$ 1.12
Net Earnings	\$ 1.82	78¢
Shares Outstanding	1,078,000	1,078,000

Directors and Officers

William E. Black
Chairman and President

Robert F. Black
Director and Vice-President

William J. Huntley
Director and Secretary-Treasurer

George W. Copeland, Q.C.
Director

Barry J. Black
Director

Donald E. Boxer
Director

Robert J. McMullen
Director

Bruce H. Black
Director

Head Office

10 Dyas Road, Don Mills, Ontario

Subsidiaries

Eddie Black's Limited
10 Dyas Road, Don Mills, Ontario

Educational Film Distributors Limited
285 Lesmill Road, Don Mills, Ontario

R & H Products Limited
743 Renaud Avenue, Montreal-Dorval, Quebec

Auditors

Messrs. Coopers & Lybrand
145 King Street West, Toronto, Ontario

Solicitors

Messrs. Bjarnason & Copeland
Toronto, Ontario

Bankers

Canadian Imperial Bank of Commerce
1865 Leslie Street, Don Mills, Ontario

Transfer Agent

Canada Permanent Trust Company
20 Eglinton Avenue West, Toronto, Ontario

Stock Listing

BPK – The Toronto Stock Exchange

Underwriter

Burns Fry Limited
Toronto-Dominion Centre, Toronto, Ontario

To Our Shareholders :

Your corporation had a most successful fiscal year. Sales were almost 29 million dollars and earnings were just under 2 million dollars.

Our overall increase in sales was greater than anticipated at this time last year. This upsurge in sales volume provided revenues which far surpassed the rise in costs of operations.

We were also favoured in certain respects with our provision for income taxes. This year there was a further tax reduction arising from the 3% inventory credit.

Our strong working capital position has enabled us to take advantage of some exceptional purchasing opportunities. Working capital increased to \$6,578,297 at our year end.

During the year, dividends totalling 24¢ were paid on Class A shares and 20.4¢ were paid on the Class B shares out of tax paid undistributed surplus. Your corporation is subject to that portion of the Anti-Inflation Act which restrains the amounts of dividends which can be declared and paid.

Black's Camera Stores continued on the path of steady selective expansion with two additional locations bringing our total to 44. One is in Billings Bridge Plaza, Ottawa and the other in Stone Road Mall, Guelph. Every retail outlet showed a sales increase and only two were less than ten percent.

Photofinishing operations reflected improved results due to increased output and improved efficiency which was attained by additional investment in plant equipment. Further investment was made again this year to provide for expected volume increases.

A branch photofinishing plant was opened in Ottawa this spring to provide faster service to our customers in that region.

Our Audio Visual Division has continued to decline in sales. Further changes are planned in an effort to reduce expenses beyond the break even point.

Educational Film Distributors Ltd. showed some improvement in results but, since this company is essentially reliant on educational spending, no great change can be anticipated.

R & H Products Limited had a sales increase but margins were reduced. Net results did not show a significant change. Negotiations with Fuji Photo Film Company Limited of Tokyo for their purchase of this subsidiary are still ongoing. It is expected that a new agreement will be entered into and another application will be made to the Foreign Investment Review Agency for approval.

This past fiscal year was particularly satisfying in view of the outstanding results achieved. There were some very difficult times due to international monetary fluctuations, uncertain economic conditions, continuing inflation as well as the usual business problems encountered throughout the course of a year. It is gratifying to reflect on the actions taken by management at all levels and the efforts expended by all our employees to produce such great success. It would be difficult to be anything but optimistic about our future.

I would be remiss at this time if I failed to acknowledge the support of our ever-increasing number of loyal customers. To all of them I extend sincere thanks for their patronage and pledge our best efforts to provide good value and service in order to merit continued support.

William E. Black, President.

BLACK PHOTO CORPORATION LIMITED

Consolidated Balance Sheet

as at March 31, 1978

ASSETS

	1978	1977
CURRENT ASSETS		
Cash and short-term deposits	\$ 2,848,991	\$ 1,537,163
Accounts receivable	1,450,877	1,367,542
Inventories	6,262,642	4,818,545
Prepaid expenses	88,451	24,002
	<u>10,650,961</u>	<u>7,747,252</u>
FIXED ASSETS (note 2)	2,161,589	1,727,309

SIGNED ON BEHALF OF THE BOARD

William E. Black, Director

William J. Huntley, Director

\$12,812,550

\$ 9,474,561

LIABILITIES

	1978	1977
CURRENT LIABILITIES		
Bank indebtedness	\$ 1,347,656	\$ 640,794
Accounts payable and accrued liabilities	2,119,700	\$ 1,790,574
Income taxes	605,308	12,807
	<u>4,072,664</u>	<u>2,444,175</u>
LONG-TERM DEBT – net of current portion (note 3)	57,760	62,870
	<u>4,130,424</u>	<u>2,507,045</u>

SHAREHOLDERS' EQUITY

SHARE CAPITAL (note 4)

Authorized – 4,601,000 shares without par value		
Issued and fully paid – 1,078,000 (1977 – 1,078,000) shares	1,377,831	1,377,831
Unpaid subscription	8,100	12,150

RETAINED EARNINGS

1,369,731	1,365,681
7,312,395	5,601,835
<u>8,682,126</u>	<u>6,967,516</u>
<u>\$12,812,550</u>	<u>\$ 9,474,561</u>

Consolidated Statement of Earnings and Retained Earnings

for the year ended March 31, 1978

	1978	1977
NET SALES	<u>\$28,374,009</u>	<u>\$23,359,172</u>
EXPENSES		
Operating costs and other expenses	24,234,331	20,703,449
Depreciation and amortization	467,760	353,514
Interest —		
Long-term debt	4,806	5,145
Other	110,526	42,556
	<u>24,817,423</u>	<u>21,104,664</u>
	3,556,586	2,254,508
PROVISION FOR INCOME TAXES (note 6)	<u>1,589,415</u>	<u>1,046,000</u>
EARNINGS BEFORE EXTRAORDINARY ITEM	<u>1,967,171</u>	<u>1,208,508</u>
EXTRAORDINARY ITEM		
Write-off of excess of cost of shares of subsidiaries over net book value at date of acquisition	<u>—</u>	<u>366,025</u>
NET EARNINGS FOR THE YEAR	<u>1,967,171</u>	<u>842,483</u>
RETAINED EARNINGS — BEGINNING OF YEAR	<u>5,601,835</u>	<u>4,998,176</u>
	<u>7,569,006</u>	<u>5,840,659</u>
Dividends paid (notes 5 and 9)	235,158	214,824
Tax paid on 1971 undistributed income	21,453	24,000
	<u>256,611</u>	<u>238,824</u>
RETAINED EARNINGS — END OF YEAR	<u>\$ 7,312,395</u>	<u>\$ 5,601,835</u>
EARNINGS PER SHARE		
Earnings before extraordinary item	<u>\$1.82</u>	<u>\$1.12</u>
Net earnings for the year	<u>\$1.82</u>	<u>\$0.78</u>

Consolidated Statement of Changes in Financial Position

for the year ended March 31, 1978

	1978	1977
SOURCE OF WORKING CAPITAL		
Net earnings for the year	\$ 1,967,171	\$ 842,483
Items not affecting working capital –		
Depreciation and amortization	467,760	353,514
Write-off of excess of cost of shares of subsidiaries over net book value at date of acquisition	—	366,025
Provided from operations	2,434,931	1,562,022
Receipt of share subscription (note 4)	4,050	4,050
Issue of share capital	—	12,240
	<u>2,438,981</u>	<u>1,578,312</u>
USE OF WORKING CAPITAL		
Tax paid on 1971 undistributed income	21,453	24,000
Dividends paid (note 5)	235,158	214,824
Additions to fixed assets (net)	902,040	580,212
Decrease in long-term debt	5,110	4,748
	<u>1,163,761</u>	<u>823,784</u>
INCREASE IN WORKING CAPITAL	1,275,220	754,528
WORKING CAPITAL – BEGINNING OF YEAR	5,303,077	4,548,549
WORKING CAPITAL – END OF YEAR	<u>\$ 6,578,297</u>	<u>\$ 5,303,077</u>

Notes to Consolidated Financial Statements

for the year ended March 31, 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the company and the disclosure of its financial information conform with generally accepted accounting principles. The following is a summary of the significant accounting policies followed in the preparation of these consolidated financial statements:

Principles of consolidation

These consolidated financial statements include the accounts of Black Photo Corporation Limited and its wholly-owned subsidiaries, Eddie Black's Limited, Educational Film Distributors Limited and R & H Products Limited.

Inventories

Inventories represent finished products purchased from suppliers. They are valued at cost as determined on a first-in, first-out basis which is, in the aggregate, lower than replacement cost and net realizable value.

Fixed assets

Fixed assets are recorded in the accounts at cost. Depreciation is determined on the declining balance method at rates of 5% for buildings, 20% for furniture, fixtures, machinery and equipment and 30% for motor vehicles. Leasehold improvements are amortized on a straight-line basis over the terms of the leases. Expenditures for maintenance and repairs are charged to earnings as incurred.

Translation of foreign currencies

Assets and liabilities in foreign currencies have been translated at rates approximating those prevailing at year-end. Income transactions have been translated into Canadian dollars at rates in effect on the dates of the transactions.

Income taxes

Tax allocation accounting procedures are followed by the company. Deferred income taxes are not separately disclosed as they are not material.

2. FIXED ASSETS

Fixed assets and related accumulated depreciation are classified as follows:

	1978		1977	
	Cost	Accumulated depreciation	Net	Net
Land	\$ 94,077	\$ —	\$ 94,077	\$ 94,077
Buildings	527,638	197,719	329,919	347,260
Furniture, fixtures, machinery and equipment	3,374,185	2,001,168	1,373,017	960,596
Motor vehicles	210,863	93,907	116,956	100,791
Leasehold improvements	579,572	331,952	247,620	224,585
	<u>\$4,786,335</u>	<u>\$2,624,746</u>	<u>\$2,161,589</u>	<u>\$1,727,309</u>

3. LONG-TERM DEBT

Long-term debt represents a 7½% mortgage loan due March 1987. Blended monthly payments of approximately \$800 are made under the terms of the mortgage to retire the debt.

4. SHARE CAPITAL

The number of authorized and issued shares at March 31 is as follows:

	1978		1977	
	Authorized	Issued	Authorized	Issued
Class A shares	1,648,700	426,700	1,622,300	400,300
Class B shares	2,951,300	651,300	2,977,700	677,700
Common shares	1,000	—	1,000	—
Total	<u>4,601,000</u>	<u>1,078,000</u>	<u>4,601,000</u>	<u>1,078,000</u>

During the year there was a net increase of 26,400 in the number of authorized and issued Class A shares (1977 – increase in Class B shares of 18,800) as a result of the exercise of the conversion rights.

The Class A and Class B shares are voting, convertible into one another on a share for share basis and rank equally with respect to dividends and in all other respects. The only distinction between the two classes is that the directors may specify that cash dividends on Class B shares be paid first out of 1971 tax-paid undistributed surplus on hand and then out of 1971 capital surplus on hand (as those expressions are defined in the Income Tax Act of Canada). The receipt of such dividends by the Class B shareholders results in a reduction of the adjusted cost base of their shares with the effect that any gains realized on the disposal of the shares will be increased (or any losses reduced) for capital gains purposes.

The unpaid subscription of \$8,100 (1977 – \$12,150) relates to shares issued under a former stock option plan and is payable in equal annual instalments of \$4,050 to August, 1979.

5. DIVIDENDS

The following dividends have been declared and paid during the years ended March 31 :

	1978		1977	
	Per share	Total	Per Share	Total
Class A shares	24.0¢	\$113,593	22.0¢	\$88,238
Class B shares	20.4¢	121,565	18.7¢	126,586
		<u>\$235,158</u>		<u>\$214,824</u>

6. PROVISION FOR INCOME TAXES

The newly legislated inventory allowance became applicable this year and has resulted in a reduction in the provision for income taxes of \$81,000 (\$0.08 per share).

7. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Remuneration of directors and senior officers as defined by The Business Corporations Act amounted to \$264,294 (1977 – \$246,628).

8. LEASE COMMITMENTS

The total amount of rentals paid during the year ended March 31, 1978 under leases (including additional rent payable as a percentage of sales) was \$680,669 (1977 – \$549,712).

Minimum annual commitments under non-cancellable leases with terms of more than one year approximate \$411,014 for 1979 and average \$325,210 per year through 1983 with decreasing amounts thereafter.

9. ANTI-INFLATION ACT

The Anti-Inflation Act, effective October 14, 1975, provides for the restraint of prices, profit margins, compensation and dividends. The company is subject to that portion of the legislation which restricts the payment of dividends. Under the legislation it appears that the amount of dividends which the company can declare and pay during the period from April 1, 1978 to October 13, 1978 is restricted to less than 12.8¢ per Class A share and 10.8¢ per Class B share based on shares outstanding at March 31, 1978.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Black Photo Corporation Limited as at March 31, 1978 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Toronto, Ontario
May 12, 1978

In our opinion, these consolidated financial statements present fairly the financial position of the company as at March 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand
Chartered Accountants

Historical Financial Review	1978	1977	1976	1975	1974
Net Sales	\$28,374,009	\$23,359,172	\$20,913,497	\$17,943,460	\$15,160,185
Net Earnings	1,967,171	842,483	1,058,972	954,858	847,728
Earnings per Share	\$1.82	\$1.12*	99¢	89¢	79¢
Dividends paid	\$ 235,158	\$ 214,824	\$ 194,867	\$ 156,748	\$ 157,947
Current Assets	10,650,961	7,747,252	6,911,785	5,773,652	5,038,032
Current Liabilities	4,072,664	2,444,175	2,363,236	1,911,360	1,721,267
Total Assets	12,812,550	9,474,561	8,778,421	7,470,001	6,664,346

*78¢ after extraordinary item.

